Manitoba

Petroleum and Natural Gas Tenure System

92-01148/

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May, 1990

MANITOBA PETROLEUM AND NATURAL GAS TENURE SYSTEM

Introduction

Manitoba's "oil patch" has been active since the early 1950's. While exploration work had been conducted sporadically since the turn of the century, the 1940's saw a concerted effort and modern exploration techniques applied to the southwest portion of the Province. These efforts were rewarded with the first commercial oil discovery being put on production February 1, 1951. The 1950's proved to be a very busy time in Manitoba with 1463 wells drilled. The 1980's saw another oil boom in the Province with 1403 wells drilled to the end of 1989. Since 1951, some 27 million cubic metres of oil have been produced.

In the southwest corner of the Province, the area with the best hydrocarbon potential, approximately 25% of the oil and natural gas rights are owned by the Provincial government (Crown) while the remaining 75% are held privately by individuals or corporations (freehold). A small number of tracts are also owned by the Federal government and Indian bands.

Crown Oil and Natural Gas Rights

Over the years, various tenure systems have been used to grant the right to drill into and produce from Crown owned oil and natural gas rights. Current dispositions are governed by the Petroleum Crown Leasing Regulation (MR 429/87R) under The Mines Act. This legislation has been in effect with minor changes since January 1, 1979.

Similar to the other western provinces, the Regulation provides for public sales by sealed tender of certain agreements relating to Crown oil and natural gas rights. These sales are generally held twice a year, in the spring and in the fall. Sale dates and corresponding posting request deadlines are published well in advance.

Once requests to have certain rights included in a sale are received, detailed checks are made as to the ownership of the rights requested. Other provincial departments are given an opportunity to provide comments or express concerns, especially in regard to environmentally sensitive areas. Once all checks have been completed, a notice listing all parcels and conditions of sale is published in both the Manitoba Gazette and industry publications. As well, the Petroleum Branch maintains a mailing list of interested parties who are sent copies of the notice directly.

The notice indicates the closing time for the receipt of an offer, the form such an offer should take, the method of payment and the extent to which an offer is transferrable from one parcel to another. An addendum indicating any special conditions attached to the disposition of any parcel may also be included in the notice. This may include a drilling commitment as a condition of purchase or indicate special environmental conditions that may exist.

All bids must consist of the first year rent and an application fee (both of which are dependent on the type of disposition), as well as, the bonus offer which is determined by the bidder. An address for service and the

names and percentage interest of all parties to the agreement is also required. Examples as to format and transferability of an offer are available from the Petroleum Branch.

All companies must be registered to do business in Manitoba.

The two types of agreements relating to Crown oil and natural gas rights are the Exploration Reservation and the Lease.

Exploration Reservation

An exploration reservation is an agreement with the Crown that grants the holder the exclusive right to drill within the area of the reservation for a term of three years. Prior to producing from any wells drilled in the reservation area the holder must convert the exploration reservation to lease. The depth of the well(s) drilled in the reservation area determines the number of quarter sections that may be selected as Crown oil and natural gas leases in accordance with the following formula:

$$L = 8 + \frac{D - 500}{60}$$

Where: L is the maximum number of quarter sections for selection (not less than 8)

D is the depth (in metres) of the well(s) drilled

See the attached Table regarding fees, rentals and special provisions.

Crown Oil and Natural Lease

A Crown oil and natural gas lease grants the lessee the exclusive right to drill in and produce oil and natural gas from the area covered by the agreement for a term of 5 years. If the area is productive, the lease is renewable for further 5 year terms. At the end of the second term, deeper rights are severed and only productive spacing units are renewed.

Extensions to existing terms may be granted if the lessee intends to develop the lease and commits to drill a specified number of wells during the extension term. Production from a lease is subject to a Crown royalty (share of production) in accordance with the Petroleum Crown Royalty and Incentives Regulation (MR 63/87 as amended by MR 264/87 and MR 153/89).

Private sales of Crown leases, for areas less than 16 hectares, may be made to the holder of the remaining interest where required to complete a spacing unit.

Please see the attached Table regarding fees, rentals and special provisions.

Freehold Leasing

Petroleum and natural gas leases of privately owned mineral rights are negotiated between the owner of the rights and the party wishing to

acquire a lease. In Manitoba, all individuals dealing in mineral interests are required under The Securities Act to be registered with the Manitoba Securities Commission and must post a surety bond before engaging in leasing activities in the Province. All proposed lease formats must be submitted to the Securities Commission for review and pre-clearance prior to being used.

Federal and Indian Land Leasing

The appropriate sources should be contacted regarding these lands. Please see the last page of this package.

Petroleum Branch

The Petroleum Branch of Manitoba Energy and Mines is responsible for the administration of Crown owned oil and natural gas rights and all agreements relating to these rights. Lists of all active dispositions and a map showing all dispositions and their status, along with well information, is available from:

Manitoba Energy & Mines
Petroleum Branch
555 - 330 Graham Avenue
Winnipeg, Manitoba
R3C 4E3

Manager - Petroleum Administration (204) 945-6571

Type of Crown Disposition Agreement

	Exploration Reservation	Lease
Rights Granted	Exclusive Drilling Rights	Exclusive Drilling and Production Rights
Term	3 years	5 years
Area	3 sections or greater	3 sections or less
Renewal	N/A	End of Initial term: - productive 1/4 sections, for a 5 year term End of Second term: - productive spacing units to the base of the deepest producing formation only, for a 5 year term
Extension	1 year term, if well has or is being drilled	Up to 5 one year periods, subject to a commitment to further develop the lease during the period
Application Fee	$250.00	$50.00
Annual Rental	Initial Term $1.25/ha Extension Period $2.50/ha	1st year or if productive $2.50/ha After first year and non productive $5.00/ha Extension period penalty 1st year $2.50/ha 2nd year $5.00/ha 3rd, 4th & 5th year $12.50/ha
Conversion To Lease	Lease selection from within the exploration reservation area based on depth of well(s) drilled in the Exploration Reservation	N/A
Offset Committments	Should commercial production be obtained from lands directly offsetting the lease or exploration reservation area certain drilling/royalty/termination requirements may be enforced.	

Contacts:

Federal Lands

Energy, Mines & Resources Canada
Canada Oil and Gas Lands Administration (COGLA)
355 River Road
Ottawa, Ontario
K1L 8C1

Chief Public Lands (613) 993-3760
Rights Management Branch

Indian Reserve Lands

Indian Oil and Gas Canada
Department of Indian and Northern Affairs
Indian Minerals (West)
654, 220 - 4th Avenue S.E.
Calgary, Alberta
T2G 4X3

General Manager, Land (403) 292-5625

Other Contacts:

Manitoba Securities Commission
11th Floor
405 Broadway
Winnipeg, Manitoba
R3C 3L6

(204) 945-2556

Brandon Land Titles Office
705 Princess Avenue
Brandon, Manitoba
R7A 0P4

(204) 726-6279

Neepawa Land Titles Office
329 Hamilton Street
Neepawa, Manitoba
R0J 1H0

(204) 476-2106